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This Is Exactly How Trade Wars Begin

First it's steel beams, then Jim Beam, then Beemers. Remember that tariffs are effectively taxes.

By

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Dear President Trump :

It seems you are about to impose tariffs on imported steel and aluminum. You probably know that just about every economist except Peter Navarro thinks this is a terrible idea. But it's not just us economists. Aside from the steel and aluminum industries, virtually the entire business community opposes the tariffs. The stock market took a major hit. And by the way, when did you stop using the Dow to keep score?

You tweeted that "trade wars are good, and easy to win." Actually, trade wars are bad, and impossible to win.

Voluntary trade is a win-win proposition, as Adam Smith explained in "The Wealth of Nations." Impeding voluntary trade is a lose-lose proposition. The key word here is "voluntary." When foreigners rent rooms in your Washington hotel, both you and they win, right? If not, why would they stay there, and why would you accept them as guests?

Next, let's consider your "easy to win" quip. It is likely that the U.S. can inflict more pain on its trading partners than they can inflict on us, as we rely less on trade than most countries do. Sure. But merely suffering less than your opponent seems a poor definition of "winning." Trade wars are a pyrrhic form of competition in which even the victor is left worse off.

You say America loses whenever it runs a trade deficit with any country. But in 2017 the U.S. ran a \$571 billion trade deficit with the entire world, which necessarily included

deficits with dozens of individual countries. Were they all beating us—and if so, at what? The truth is that America’s huge multilateral trade deficit is made at home.

Here’s why. Nations that invest more than they save must borrow the difference from abroad. Happily, the U.S. can do that because foreign countries have confidence in American securities. When we import more than we export, foreigners get IOUs in return for goods and services Americans want. That sounds more like winning than losing: We get German cars, French wines, and Chinese solar panels, while the Germans, French and Chinese get paper assets. America’s tremendous ability to export IOUs has been called our “exorbitant privilege.” Yes, privilege.

Trade wars have a way of intensifying. Almost immediately after you announced your tariffs, the European Union warned that it would slap penalties on American bourbon—a move likely intended to grab the attention of Senate Majority Leader Mitch McConnell of Kentucky. You then replied that the U.S. could impose tariffs on European cars. This is exactly how trade wars escalate: from steel beams to Jim Beam to Beemers. Who knows what comes next?

Your administration’s attempts to understate protectionism’s costs are unconvincing. Commerce Secretary Wilbur Ross argued—apparently with a straight face—that steel tariffs are no big deal because there’s very little steel in a can of Campbell’s soup. He meant to imply that the effects of tariffs would be limited because steel makes up a tiny share of the overall U.S. economy. That’s true. But if we applied the same principle to every individual industry, we could wind up protecting virtually every American industry that faces foreign competition.

The tariffs also punish American allies more than any other nations. Did you know that the top three exporters of steel to the U.S. are Canada, Brazil and South Korea? Canada is our super-friendly neighbor to the north; it even has a Trump hotel. The Brazilian economy, South America’s largest, is struggling and badly needs exports. South Korea is our key ally against North Korea and its nuclear threat. You may have granted Canada a temporary exemption, but do you really want to poke these allies in the eye?

Finally, remember that tariffs are effectively taxes. Industries that consume steel employ far more people than those that produce it, so a government-mandated increase in steel prices is almost certain to kill many more jobs than it creates. What's more, many of those lost jobs will be in manufacturing and other industries that are popular among your own Republican Party base.

If you thought the prospect of punishing China was worth all of these consequences, you should know that you missed your best chance. The Trans-Pacific Partnership could have included the U.S. while leaving China out in the cold. Yet you pulled the U.S. out, leaving an open playing field for China to dominate trade in the region. Has President Xi thanked you enough for that?

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